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U.S. Lawmakers Seek Review of Cnooc Bid

**Potential Offer for Unocal
Spurs Call for Bush Action
Because of Security Worries**

By **RUSSELL GOLD** in Dallas and **MATT POTTINGER** in Beijing
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Two Republican members of Congress are calling on the Bush administration to review -- and potentially block -- an expected effort by China's third-largest oil-and-natural-gas company to acquire **Unocal** Corp.

The move comes as China's **Cnooc** Ltd. is considering a counterbid for Unocal, a U.S. company with oil-and-gas reserves in North America and Asia. In April, **Chevron** Corp. -- the second-largest U.S. oil company in terms of market value, behind Exxon Mobil Corp. -- agreed to buy Unocal in a stock-and-cash deal valued at \$16.7 billion.

In a pre-emptive move, the congressmen sent a letter to Mr. Bush on Friday seeking a federal review of any bid by Cnooc, the publicly listed arm of state-owned

China National Offshore Oil Corp., based on national-security concerns. "The United States increasingly needs to view meeting its energy requirements within the context of our foreign policy, national security and economic security agenda. This is especially the case with China," wrote Richard Pombo and Duncan Hunter, Republican congressmen from California. They urged the president to exercise his authority under a 1988 federal law to begin a thorough review by the Committee on Foreign Investments in the U.S., an interagency panel chaired by Treasury Secretary John Snow. After the review, Mr. Bush could block the deal, though such a move would be highly unusual.

Even calling for the review could have repercussions for the U.S. relationship with China. Tension between the major trading partners is on the rise after Washington recently reimposed import quotas on some kinds of clothing from China. Members of the U.S. Congress also are concerned about America's widening trade deficit with China.

Earlier this month, Cnooc said it was examining its options, including making a bid for Unocal. A Cnooc investment adviser has nearly wrapped up its analysis and is expected shortly to issue its recommendations to the company's directors, according to people with knowledge of the situation.

A Cnooc bid would heat up competition over resources among companies from the world's

biggest energy-consuming nations. Growing global energy demand is sending prices up. Benchmark crude-oil futures closed Friday on the New York Mercantile Exchange at a record high \$58.47 a barrel, although that still is below the inflation-adjusted peak in the 1970s. Driven in part by a fast-growing Chinese appetite for fuel, global energy consumption grew 4.3% in 2004, the highest percentage increase since 1984 and a record increase in terms of actual oil-and-gas volume, according to an annual statistical review compiled by BP PLC.

China's hunger for oil and gas, and its willingness to pay top dollar, has made it an aggressive purchaser of natural resources around the world. But a Chinese company has never taken on a purchase of the size and political resonance of Unocal, a fixture of the U.S. economy since its founding 115 years ago. Unocal is the ninth-largest U.S. oil company in terms of reserves.

Cnooc and Chevron both aggressively pursued a deal for Unocal earlier this year. For reasons that aren't clear, Cnooc's all-cash \$16.7 billion offer was withdrawn hours before the Unocal board met to consider Chevron's offer. About half of Unocal's reserves are natural-gas fields in Southeast Asia. Unocal also holds a 10% stake in a giant oil field in Azerbaijan, and it controls the oil-and-gas equivalent of 557 million barrels of oil in the U.S. and Canada.

If Cnooc were to make an offer for Unocal, the Chinese company would have to pay a \$500 million break-up fee to Chevron. The terms of the Chevron-Unocal deal require that Unocal shareholders vote on the merger, even if another suitor emerges. That vote still isn't scheduled. Chevron spokesman Donald Campbell declined to discuss what the company would do if faced with a rival bid for Unocal. "We are unwavering in our intent to see this transaction through to a successful and quick conclusion," he said.

In their letter, the congressmen expressed concern about China's increasing appetite for oil and its apparent willingness to use its treasury to fund acquisitions. "We fear that American companies will find it increasingly difficult to compete against China's state-owned and/or controlled energy companies, given their mandates to supply China's ever growing demand for energy," they write. "A government-owned company like Cnooc has access to the Treasury of the Chinese government, something no company operating in the free market has."

Industry analysts are skeptical that Cnooc would have direct access to the Chinese treasury. But a Cnooc bid for Unocal would likely benefit from other forms of government support, such as substantial loans from Chinese state-controlled banks.

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